CIMB PREFERRED INSIGHTS

NOV 2021

Key Highlights

- We take a look at some ideas within the financials/healthcare space and Asia Pacific region:
    - **United Global Financials Fund**
    - **Blackrock World Healthscience Fund**
    - **Allianz Income and Growth fund**
    - **JP Morgan Asia Pacific Income Fund**
    - **JP Morgan ASEAN Equity Fund**
- For direct exposure into equities, we take a look at :
    - **Meituan (3690 HK)**
    - **Didi Global (DIDI)**

[1] For market participants, last week was another week of earnings optimism amid inflation and growth jitters. The Singapore's STI ended Friday (29 October) and the last trading day of the month down 0.2% on week, but it gained 3.6% on month to a six-month high. The MSCI Asia Pacific Index fell 0.8% on Friday and 1.5% on week. It ended the month flat. The MSCI's broadest index of Asia- Pacific shares outside Japan was also down 0.8% for a weekly loss of 1.5%, snapping three weeks of gains. But it gained 1.3% on month.

European stocks closed mixed but on Wall Street, the three main US stock indices reversed earlier losses to close at a record high on the last trading day of the month, with both the S&P 500 and the NASDAQ booking their best month since Nov'20.

Although the MSCI's gauge of stocks across the globe fell 0.2% on Friday, it still gained 0.4% on week, its fourth consecutive weekly gain for the month of October it rose 5%, rebounding from September's 4.3% loss. Meanwhile, the Cboe Volatility Index, or VIX fell 1.6% to 16.26. Although the VIX rose 5.4% on week, it fell almost 30% on month.

The VIX fear index had dropped to a post pandemic low of 15.01 on 21 October. Are fearless markets walking on earnings sunshine?

In China, property sector-related jitters eased last week as China Evergrande said it had resumed work on a handful of projects across the Pearl River Delta in southern China as it sought to reassure anxious

[1] Adapted from "Sentiments from the week before", Song Seng Wun, 1 Nov 2021

investors. The heavily indebted company also made interest payments on overdue coupons at the eleventh hour. Meanwhile, Chinese media reported that the government will be strengthening the country's tax reforms to achieve its goal of long-term "common prosperity". The report said Beijing will adjust tax collection to boost revenue and reform the country's income distribution. The aim is to adjust the income of its top-earners and elevate the earnings of lower-income groups.

Common prosperity is a policy drive by Chinese President Xi Jinping to narrow the gap between rich and poor. According to the top decision-making body of the Chinese parliament, it will roll out a pilot real estate tax in some regions.

In the bond markets, US Treasury yields dipped from earlier gains. The benchmark US10Y note ended the last trading day of the month at 1.552%, 3 bps lower than Thursday, but 6 bps higher on month. Meanwhile, Germany's 10Y yield ended Friday and October at -0.106%, a level not seen since May 2019, as the

European Central Bank President failed to calm markets that are pricing in two ECB rate hikes by the end of next year and as long-term inflation expectations stood above the ECB's target. Indeed, in a span of a few days last week, the view that some major central banks will be slow to raise rates was shattered with short-term yields from Canada to Australia jumping the most since the

1990s, according to a Bloomberg news report, catching even some of the best money managers flat footed. At the same time, long-term rates slid- a signal that aggressive policy moves are likely to slow the pace of economic expansion.

In the currency markets, the US dollar DXY index gained 0.8% on Fri & 0.5% on week to 94.2, getting closer to a one-year high of 94.6 reached on 12 October on news that the Fed's preferred inflation measure showed prices continuing to rise faster than its 2% target. FX traders are weighing the odds that the current spike of inflation will lead more central banks to move more quickly to scale back their pandemic-triggered monetary policy support than they had planned to. Headline US price pressures as gauged by the personal consumption expenditures price index including food and energy surged 4.4% YoY in September, the most since January 1991.

Meanwhile, losses in the euro deepened after the common currency booked its biggest daily gain in five months. **Gold** fell 0.9% to US$1,783.4 a troy ounce on Friday, moving away from a six-week high of US$1,807.7 hit on 25 October, as the US DXY index rebounded from a one-month low and US Treasury yields rose.

In the energy markets, WTI crude futures reversed earlier losses to settle 0.9% higher at US83.57 per barrel in the last trading session of October, holding near to a seven-year high of US$85.41 hit on Monday, on expectations that OPEC+ would maintain production cuts during this Thursday's (5 November) meeting. For the month, WTI crude prices jumped more than 11% on the back of coal and natural gas shortages in Asia and Europe while OPEC and other key producers kept supplies tight.

The oil producer group sees world oil inventories declining by an average of 1.1m barrels a day until the end of the year. Meanwhile, the global benchmark crude, Brent rose 0.1% to US$83.72 on Friday, but it fell 1.3% on week, its first weekly decline in 10 weeks.

The S&P 500 has rallied 22.6% year-to-date, its best January-October performance since 2013. Investors will now have to weigh whether momentum from the US stock market's record breaking rally will continue into the last two months of the year which is traditionally a strong calendar period for Wall Street, but this year could be different since a wall of worries still persist. In particular, November and December have been the S&P 500's` second- and third-best

months of the year since 1950, with the index rising an average of 1.7% and 1.5%, respectively, according to the Stock Trader's Almanac.

This time around, however, the year-end period may have more than its usual share of event risks - anything from intensifying growth vs. inflation crosscurrents, protracted logistics bottlenecks, worsening US-China relation, to US political debate over tax legislation along the corridors of power in Washington.

Looking ahead into the new trading week…

It is a big "Central Bank Week" with several other event risks. Can earnings optimism continue to lift equities, or will central bankers spoil the party by taking away the punch bowls? All eyes and ears will be on the Federal Reserve when the US central bank hold its November policy meeting mid-week. Apart from the US, other central bank holding policy meetings this week include the UK, Australia, Malaysia, Poland and Norway. The US central bank is expected to announce a winding down of its massive bond buying program put in place last year.

But, what will it say about interest rate which is currently just above zero? Will the Fed continue to stick to its script that it is scaling back its QE program first before it start hiking rates late in H2 2022?

The worldwide October Markit manufacturing and services PMIs will be released for a detailed look into macro conditions at the start of Q4. Over the weekend, China reported its official NBS PMIs for October. The manufacturing PMI for China came in at a lower-than forecast 49.2 (Bloomberg cons: 49.7), the second straight month of contraction in factory activity, and the lowest post pandemic reading. Meanwhile the non-manufacturing PMI eased to 52.4 from 53.2 in September. Still, the latest reading pointed to the second straight month of growth in the service sector, amid sporadic Covid-19 outbreaks.

In Europe, apart from the flood of October Markit PMI readings, other notable macro releases this week include the Euro Area jobless rate which is projected to fall in September to lowest level since April 2020, and retail sales likely rose for a second consecutive month in September. Other notable macro data releases include Euro Area September producer prices and Germany September industrial production and factory orders.

Meanwhile, the US jobs report, out Friday, is expected to show job growth recovered in October after two straight months of disappointing payroll figures (NFP cons: 450k vs. September's 194K).

The October jobless rate is expected to dip to a post pandemic low of 4.7% from 4.8% in September.

Globally, earnings for the week include:

Airbnb, Allstate, AIG, AP Moller - Maersk, Apollo Global Management, Bradesco, Barrick Gold, BMW, Bharti Airtel, BP, Cigna, ConocoPhillips, Credit Suisse, CVS, **DBS Group**, Deutsche Post, Duke Energy, Enel, Estee Lauder, Ferrari, Fujifilm, Honda Motor, ING, Itau Unibanco, Intesa, Itochu, KKR, MetLife, Mitsubishi, Mitsui, Moderna, Nintendo, Novo Nordisk, **OCBC Bank**, Peloton, Pfizer, Pinterest, Prudential Financial, Qualcomm, Samsung SDI, Saudi Arabian Oil, Societe Generale, SoftBank, Square, State Bank of India, Standard Chartered, Sun Life Financial, Tata Motors, T-Mobile US, TC Energy, Toyota Motor, Uber, **United Overseas Bank**, Vonovia and Westpac Banking.

Notable ASEAN macro news…

- **Singapore September headline CPI** rose by a higher-than-forecast 2.5% YoY compared with market estimates and August's figure of 2.4%. The latest reading returned to July's near eight-year high level. On a monthly basis, the CPI rose by 0.4% in September after gaining the most in three months of 0.5% in August. The MAS core CPI rose 1.2% YoY, the most since May 2019.

- **Bank loans in Singapore** rose 1.7% MoM to a fresh record high of S$803.8bn in September, as both consumer loans (S$305.8bn vs S$302.8bn) and lending to businesses (S$498.0bn vs S$487.3bn) increased.

- **Singapore September manufacturing output** declined by 3.4% YoY, compared with market forecasts of a 0.9% fall and after a downwardly revised 11.0% gain in August. This was the first drop in industrial output in a year due mainly to the high year– ago base for pharmaceuticals (Sep'20: 114%% YoY). On a monthly basis, manufacturing output fell 2.8% a reversal from August's 5.6% MoM. For the January-September period factory output expanded 13.6% YoY vs. 6.3% YoY for the same period last year.

- **Thailand September trade balance** reverted to a surplus of US$609.8m after a US$1.22bn deficit in August. Exports rose by a stronger than forecast 17.1% YoY compared with August's 8.9% YoY. Imports grew by a softer-than-forecast 30.3% YoY compared to August's 47.9% YoY. For the January-September period, the trade surplus fell to US$2.02bn from US$21.41bn for the same period last year.

- **Thailand September manufacturing output** declined by a smaller-than forecast 1.28% YoY compared with market consensus of a 3.0% fall and after a revised 4.71% fall in August. The latest figure pointed to the second straight month of drop in factory output, amid the latest wave of Covid-19 infections in the country and a migrant labour shortage.

- **Foreign direct investment into Indonesia** (excluding investment in banking and the oil and gas sectors) fell 2.7% YoY to IDR 103.2 trillion (US$7.31bn) in Q3 2021, reversing sharply from Q2's 19.6% YoY jump. It was the first decline in the FDI since Q2 2020, amid strict Covid-19 restrictions that affected the flow of capital goods. In total, Indonesia recorded an IDR 216.7 trillion of foreign and domestic investment in Q3, up 3.7% YoY. For 2021, the government is targeting IDR 900 trillion total investment. In the first nine months of the year, about 73.3% of the target has been achieved.

- **Vietnam's trade surplus** of US$1.1bn in October was larger than expected and was the second month of surplus. Exports edged up 0.3% YoY US$27.3bn, while imports advanced at a faster 8.1% to US$26.2bn. For the January-October period, Vietnam recorded a US$1.45bn goods trade deficit, as exports increased 16.6% YoY while imports surged 28.2%.

- **Vietnam's October retail sales** declined by 19.5% YoY, the least since June, after a 28.4% in September. However, the latest reading marked the sixth straight month of drop in retail trade, amid rising cases of the Delta variant of coronavirus across the country. For the Jan-Oct period, retail trade dropped 9.6% YoY.

- **Vietnam's October industrial production** dropped by 1.6% YoY, the least since July, after a revised 7.5% in September. However, the latest reading pointed to the fourth straight month of fall in industrial output. For the January-October period, industrial output expanded 3.3% YoY.

- **Vietnam's October CPI** eased to 1.77% YoY, the lowest since March, due to decline in demand of electricity and water when the weather turned to autumn and house rents continued to drop, amid resurgence Covid-19 infections. On a monthly basis, October CPI dropped by 0.20%, following a 0.62% fall in September.

- **Malaysia September trade surplus** widened to an-all time high of MYR 26.1bn beating market expectations of MYR 22.5bn. Exports rose 24.7% YoY to a new high of MYR 110.8bn, led by higher commodities prices and demand for manufactured goods. Imports rose 26.5% YoY to a five-month high of MYR 84.7bn as purchases grew for all key sectors. For the January-September period, the trade surplus widened to MYR 176.3bn from MYR 123.2bn for the same period last year.

- **Producer prices in Malaysia** rose by 12.3% YoY in September, after an 11.3% gain in August. This was the eighth straight month of rises in producer inflation and the highest reading in the sequence. On a monthly basis, the PPI rose by 0.3%, easing from a 0.6% rise in August.

- **The Malaysia government proposed a record budget** as a 5.5-6.5% GDP growth range is forecast for 2022. Budget 2022 maintains expansionary bias with budget deficit of RM97.5bn or 6% of GDP (RM98.8bn or 6.5% of GDP in 2021). A one-off windfall tax on company profits exceeding RM100m in FY22 came as a surprise after being downplayed by MOF officials, and other revenue augmenting measures to yield additional revenue of RM6.2bn, helping to finance RM233.5bn opex (+6.3%) while devex climbs to RM75.6bn (+21.9%). Sufficient flexibility has been built into Budget 2022 to keep policy response nimble, including RM10bn contingency in the Covid-19 Fund, modest personal income tax targets and conservative oil price/Petronas dividend assumptions.

Treasury yields have surged over the past week, in particular short-maturity rates touching the highest since start of Covid outbreak (5Y UST went above 1.20%). This was due to concerns over quickening inflation coupled with markets expectation of some form of QE tapering to be announced in next FOMC in Nov.

Consequently, Fed Funds Future saw traders price in 2 rate hikes by end of 2022 (instead of previously where 1st rate hike was expected in early 2023).

The breakeven rates for 10Y TIPS surged towards end of the week as inflationary pressures continue to be priced into the market. 10Y breakeven rate punched through 2.60%, a level hasn't been seen since 2013. (Note: Breakeven rates represents a measure of expected inflation derived from 10Y UST yields against 10Y TIPS).

Data for next several months are critical for assessing whether the high inflation numbers we have seen are indeed transitory. Some Fed speakers are arguing that pandemic inflation will soon ease, and rate should stay low to aid growth and hiring recovery. First hike in 4Q22 may be too premature. However, this is in clearly in contrast with market participants.

We saw curve flattening due to short end rising more than the long end (5Y30Y spread: 88 bps vs start of year at 128 bps). However, we observe the similar flattening trend during the last QE tapering in 2013 and 1st rate hike post GFC back in 2015.

Markets are likely to watch the UST space as levels remain near the 1.70% big figure. It seems that investors are pricing in the upbeat outlook. Bond investors are mostly expecting a Nov announcement that the Fed will taper its QE asset purchases.

Against the above backdrop, we explore the **United Global Financials Fund.** We believe financials should benefit from a cyclical tailwind (such as higher infrastructure spending) or a steepening yield curve. Recently, many big cap financials - US lenders JPMorgan, BlackRock, Wells Fargo & Co, Citigroup, Bank of America Corp, Morgan Stanley all reported 3Q profits that beat market expectations.

We stress that "Financials" are not just banks – and that there are many segments (insurers, diversified financial conglomerates, services provides, payments, fintech and disruptors), and each offer different growth opportunities and diversification benefits.

In addition to Financials, investors can consider funds with a healthcare exposure such as the **Blackrock World Healthscience Fund**. While companies pursuing COVID-19 diagnostics, therapies, and vaccines have received much of the attention over the past year as a result of the sheer magnitude of the COVID-19 pandemic, it is important to remember that there are many innovative areas of healthcare that are not pursuing COVID-19 related solutions such

as in both the medical devices and biotechnology sub-sectors.

Beyond the innovation taking place in the healthcare sector, the sector is underpinned by strong secular growth trends; in particular demographic change in both developed and developing countries. In the developed world, populations are aging and living longer which will lead to increased demand for healthcare products and services. In emerging markets, the modernization of healthcare infrastructure and increased spending on healthcare from emerging market economies will lead to increased healthcare consumption in the coming years.

With the healthcare sector trading roughly one standard deviation below its long run average relative to broad equity markets, current valuations look attractive for the long term investor.

China. Earlier, Bloomberg news reported that China hinted that its crackdown on Tech Giants was coming to an End. China's top financial regulator said he expects to achieve significant progress in the ongoing crackdown on fintech firms before the year end, reinforcing speculation that Beijing's campaign to rein in its tech giants may be receding.

We also highlighted previously that signs of the nearly one-year-old crackdown in China appeared to be entering its final stage with events such as a smaller-than-anticipated fine for food delivery giant **Meituan (3690 HK)**. More recently, Dow Jones reported that the cybersecurity agency was wrapping its probe into **Didi Global (DIDI).**

Furthermore, PBOC affirmed that authorities were handling the Evergande situation, and sought to ensure smooth financing conditions for other major developers and homebuyers to contain any spillover risks. PBOC added that Evergrande constituted an idiosyncratic case and that the property sector remained relatively healthy after years of macro-prudential regulation.

The above have helped boosted sentiment towards Hong Kong's stock market, including those from the mainland - amid bets that China's crackdowns on industries from tech to property were abating. That's helped send the Hang Seng China Enterprises Index up more than 10% since falling to a five-year low. Tech shares initially led the gains. Developers jumped after senior government officials said that risks in the property market were controllable.

The key takeaway is that while policy could be turning less restrictive in China, we believe that regulatory uncertainty for large parts of the Chinese market are not going away. **Hence we are pivoting towards Asia/ Asean markets ex HK/ China.**

Asia Pac equities have room to do better in terms of recovery and valuation. Funds such as **Allianz Income and Growth fund,** or **JP Morgan Asia Pacific Income Fund** offer investors exposure into these regions and also have a payout feature.

Another fund with a more concentrated focus is the **JP Morgan ASEAN Equity Fund**. The fund aims to provide long term capital growth by investing primarily in companies of countries which are members of ASEAN. The relevant benchmark is the MSCI AX ASEAN Index (Total Return Net).

Please speak to your Relationship Manager for more details.

Disclaimer

CIMB Bank Berhad, Singapore Branch has produced this publication/email/report/commentary for private circulation to CIMB Preferred Clients in Singapore only. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means or (ii) redistributed, published, circulated, reproduced or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CIMB Bank Berhad, Singapore Branch.

This publication/email/report/commentary has been prepared by CIMB Bank Berhad and/or its related and affiliated companies and/or any individuals connected with the aforementioned entities (hereinafter "CIMB") and is solely for information and discussion and information purposes only. This publication/email/report/commentary should not be construed as a recommendation, an offer to sell or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. CIMB is also not acting as an advisor or agent to any person to whom this report is directed in respect of its contents. A copy of the prospectus of each fund is available and may be obtained from the relevant fund manager or any of its approved distributors. Potential investors should read the prospectus for details on the relevant fund before deciding whether to subscribe for, or purchase units in the fund. The value of the units in the funds and the income accruing to the units, if any, may fall or rise. Please refer to the prospectus of the relevant fund for the name of the fund manager and the investment objectives of the fund.

Whilst CIMB has taken all reasonable care to ensure that the information herein has been compiled from sources believed to be reliable and is not untrue or misleading at the time of publication, CIMB assumes no responsibility and makes no representations or warranties, of any kind, as to the accuracy or completeness of this publication/email/report/commentary and this publication/email/report/commentary does not purport to contain all the information that a recipient may require. CIMB makes no express or implied warranty as to the accuracy or completeness of any such information and opinion contained in this report. The information and any opinion contained in this publication/email/report/commentary are subject to change without notice. Neither CIMB nor any of its affiliates, advisers or representatives are obliged to update any such information subsequent to the date hereof. Any reference to a company, financial product or asset class is used for illustrative purposes and does not represent a recommendation in any way. The projections, valuations and statistical analyses herein may be based on subjective assessments and assumptions and may use one of many methodologies that produce different results and to the extent that they are based on historical information, they should not be relied upon as an accurate prediction of future performance. The price and value of any investments and indicative incomes herein contained may fluctuate either positively or negatively. It should be noted that investments in emerging markets are subject to increased levels of volatility than more established markets. Some of the reasons for this volatility relates to the respective economy, political climate, credit worthiness, currency and general market within that country. When investing in investments denominated in a foreign currency these transactions are also subject to fluctuation in exchange rates.

Certain transactions mentioned in this material may give rise to substantial risks and may not be suitable for all recipients. Please refrain from acting on the information herein without first independently verifying its contents.

This publication/email/report/commentary is intended for general circulation only. Nothing in this publication/email/report/commentary constitutes a representation that any recommendation herein is suitable or appropriate to a recipient's individual circumstances. This publication/email/report/commentary does not take into account the specific objectives, financial situation or particular needs of any recipient given that it is not possible for CIMB to have regard to the investment objectives, financial situation and particular needs of each person who reads this report. Before you make an investment, please consult your CIMB relationship manager regarding the suitability of any investment product based on your investment objectives, financial situation or needs. If you choose not to do so, you should consider whether the investment product is suitable for you. Please seek independent professional legal and financial advice as to the contents of this publication/email/report/commentary and the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you commit to purchasing a product. For the avoidance of doubt, the recipient of this publication/email/report/commentary should not treat such content as advice relating to legal, accounting, taxation, technical or investment matters.

Neither CIMB nor any of their directors, employees or representatives accept any liability for any loss, damage, costs, charges or expenses of whatsoever nature and howsoever arising (including but not limited to direct, indirect, special or consequential loss or loss of profits or loss of opportunity) suffered by you or any third party in connection with the use of this publication/email/report/commentary or its content (including any error, omission or misstatement herein, even if CIMB has been advised of the possibility thereof). CIMB, its affiliates and its related companies do and seek to do business with the company(ies) covered in this publication/email/report/commentary and may from time to time act as market maker or have assumed an underwriting commitment in the securities or instruments mentioned in this publication/email/report/commentary and, together with its associates and related companies, their directors, officers, employees and/or agents, may have or take positions or other interests in, and may effect transactions in securities or instruments mentioned herein and may also perform or seek to perform broking, investment banking and other banking or financial services for the companies or issuers mentioned herein and the affiliates of such companies or issuers.

The views expressed in this report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this publication/email/report/commentary. CIMB prohibits the analyst(s) who prepared this publication/email/report/commentary from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this publication/email/report/commentary may also participate in the solicitation of the businesses as described above.

The authors of the report do not own any specific securities that are recommended (shares and bonds). However, they may own units of mutual funds but these are diversified in nature and do not benefit from the price movement from single securities.

The authors are not privy to whether or not CIMB is involved in any relationship with any of the recommendations detailed in this report.

In addition, any opinions or views of third parties in this report are those of the third parties identified, and not those of CIMB. CIMB may have alliances with product providers, for which we may receive a fee. Product providers may also receive a fee from investors.

This publication/email/report/commentary is private and confidential and is for the addressee's attention only. This publication/email/report/commentary is intended for clients of the Preferred Banking Department of CIMB Bank Berhad, Singapore Branch only. If you are not the intended recipient and have received this publication/email/report/commentary, you may not use, copy or disseminate the information contained herein or hereto attached. Please also notify the sender/originator of the publication/email/report/commentary of the error and destroy the publication/email/report/commentary and/or delete the publication/email/report/commentary from your computer and system. We do not assure the security of information electronically transmitted, and your communication with us or request for communication through such means shall signify your acceptance of such risk.

The information herein is not directed to, or intended for distribution to, or use by, any person or entity who is a citizen or resident of a locality in any jurisdiction, state or country where such distribution, publication, availability or use would be contrary to law or regulation.

If at any time any provision or part of any provision, of this disclaimer is, or becomes, illegal, invalid or unenforceable in any respect under the law of Singapore, that shall not affect the legality, validity or enforceability of any other provision, or part of that provision, of this disclaimer.

CIMB Bank Berhad (13491-P)